



MULTIPLEX EUROPEAN PROPERTY FUND

ARSN 124 527 206

Interim Report 2015

Responsible Entity
Brookfield Capital
Management Limited
ACN 094 936 866
AFSL 223809

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Message from the Chairman

On behalf of the Board of Brookfield Capital Management Limited (BCML), enclosed is the interim report for Multiplex European Property Fund (Fund) for the half year to 31 December 2014.

FINANCIAL RESULTS

Key financial results for the period are:

- net profit after tax of \$20.2 million
- net cash held in Australia of approximately \$6.1 million
- Fund net assets of \$27.0 million or \$0.11 per unit
- property portfolio valued at \$332.0 million

DEBT FACILITY

The Fund's debt facility matured in April 2014 without repayment by the Fund's wholly owned German partnerships. Notwithstanding, Hypothekenbank Frankfurt AG (Financier) agreed a standstill until 15 October 2014 which was subsequently extended to 31 December 2014 and then to 30 September 2015.

This standstill agreement is subject to satisfaction of a number of conditions, including implementing a business plan that would see all of the Fund's properties sold to repay bank debt. Any further extension of the standstill remains at the Financier's discretion.

In order to avoid a potential default, BCML intends to pursue the business plan and will continue to give further consideration to alternatives for the Fund in light of the 2007 to 2010 tax audit outcome.

PROPERTY SALES

In line with the requirements of the standstill agreement, the Fund contracted to sell six nursing home assets and reduced the amount owing under the debt facility. As at 31 December 2014 only the sale of the Wiesbaden property had completed at a gross selling price of €8.5 million. The sale of the remaining five nursing homes completed on 1 January 2015.

The remaining 61 properties are being marketed for sale. In the event that the remaining properties are sold, the net sales proceeds may be reduced by sales related expenses currently estimated to be approximately €3.5 million which are not reflected in the carrying value of the properties as at 31 December 2014.

If investor approval is required by the ASX Listing Rules, a meeting of investors will be convened when details of a sale proposal are finalised.

At this stage, subject to the outcome of the tax audits, it is estimated that a managed sale process of all properties will result in a cash surplus in the Fund's German partnerships after repayment of all liabilities, including the debt facility. However, the amount cannot be accurately assessed at present and there is no guarantee that any proceeds will be available for repatriation to investors.

GERMAN TAX AUDIT

Further discussions have taken place with the German Tax Office regarding the objection lodged for Trade Tax assessed for the 2004 to 2006 tax audit of the Fund's wholly owned German partnerships. The objection remains under review by the Tax Office and it is expected that further discussions will take place prior to any final decision being issued.

The 2007 to 2010 tax audit continues. Since the preliminary findings were issued in May 2014, further information has been provided to the German Tax Office and a number of final audit reports have been received. However, no further findings have been received for the German partnership subjected to the Trade Tax assessment for 2004 to 2006 and no final assessments have been received in respect of any of the partnerships. It is open to the Tax Office to alter the findings prior to assessments being issued and therefore, there is no guarantee that this position will not change.

CASH POSITION IN AND OUT OF AUSTRALIA

As at 31 December 2014, the Fund retained net cash balances of approximately \$6.1 million (2.5 cents per unit) in Australia. Cash held in Australia is not provided as security for the debt facility and is held outside of the German partnerships and its partners.

The Fund's debt facility requires that cash and cashflow be subject to lock up and cannot be repatriated or disbursed without Financier consent. Excluding sales proceeds, approximately €18 million is retained in the German partnerships owned by the Fund. Cash has been retained to fund ongoing property portfolio requirements including required capital expenditure.

DISTRIBUTIONS

Future distributions remain subject to BCML's assessment of operating and/or market conditions in Germany and Australia, ongoing compliance of the debt facility conditions and taxation requirements including the German tax audit outcome.

On behalf of the Board, thank you for your ongoing support.



F. Allan McDonald
Independent Chairman



Half Year Review

Brookfield Capital Management Limited (BCML) the responsible entity of Multiplex European Property Fund (the Fund) provides a review of the half year ended 31 December 2014.

FINANCIAL RESULTS

Movement in Net Assets

The net asset value of the Fund increased to \$27.0 million or 11 cents per unit during the period. This increase largely reflects the net operating income retained in the Fund and the increase in value of the properties over the period.

Property Valuation

As the Fund's German partnerships are subject to terms of the standstill agreement, the properties have been classified in the Financial Statements as 'properties held for sale' rather than 'investment properties' to reflect the business plan.

BCML continues to maintain its practice of revaluing the properties each reporting period. The properties were independently valued as at 31 December 2014 by Jones Lang LaSalle (JLL).

The properties' carrying value in the Financial Statements as at 31 December 2014 of €224 million reflects JLL's valuation subject to two adjustments. The five nursing homes have been valued at their contracted selling price of €56 million. Completion of the sale of these properties occurred on 1 January 2015. Additionally, an adjustment of €1.76 million

has been made to reflect potential portfolio lower sale value when properties are sold to satisfy the requirements of the Financier. BCML considers this to be appropriate for the purpose of the Financial Statements.

Key Financial Results for the Period

- property portfolio valued at \$332.0 million (30 June 2014: \$316.7 million);
- net profit after tax of \$20.2 million (31 December 2013: \$5.9 million);
- earnings per unit of 8.17 cents (31 December 2013: 2.37 cents);
- net assets of \$27.0 million or 11 cents per unit (30 June 2014: \$6.6 million or 3 cents per unit);
- portfolio occupancy of 93% excluding nursing homes and 96% including nursing homes (30 June 2014: 93%); and
- weighted average lease expiry (WALE) by income of 6.7 years excluding the nursing homes and 7.6 years (30 June 2014: 7.0 years), including the nursing homes.

When measured in Euro, the Fund had an increase in underlying operational performance against the comparable 2013 period. This is largely a result of reduced financing costs during the current period, after maturity of the Fund's interest rate swap derivative in April 2014.

VALUATION SUMMARY

SECTOR	30 JUNE 2013 VALUATION (€M)	31 DECEMBER 2013 VALUATION (€M)	30 JUNE 2014 VALUATION (€M)	31 DECEMBER 2014 VALUATION (€M)	% CHANGE JUNE–DECEMBER 2014
Retail	121.9	122.0	123.2	125.8	2.1%
Logistics	18.6	17.9	17.7	17.4	-1.7%
Office	26.5	26.8	26.3	26.6	1.1%
Adjustments	-	-	(5.4)	(1.8)*	
Total Excluding Nursing Homes	167.0	166.7	161.8	168.0	3.8%
Nursing Homes	56.4	56.3	56.2	56.0**	-0.4%
Total	223.4	223.0	218.0	224.0	2.8%

* The adjustment to the valuation reflects the potential for a lower sale value where properties are sold to satisfy the requirements of the Financier.

** Agreements have been executed for the sale of five nursing home properties as at 31 December 2014 and settled on 1 January 2015. The Wiesbaden property was sold during the period for gross proceeds of \$8.5 million.

DISTRIBUTIONS

The Fund retains cash in Australia to meet ongoing obligations for costs associated with management of the Fund. Future distributions remain subject to BCML's assessment of operating and/or market conditions in Germany and Australia, ongoing compliance with debt facility conditions and taxation requirements including the outcome of the German tax audits.

ASSET MANAGEMENT

As at 31 December 2014, the Fund's property portfolio (excluding nursing homes) comprised 61 properties: 55 retail properties, three logistic properties and three office properties.

The German economy has been relatively stable over the past few years, which has filtered through to an improved outlook in the German investment market. A shortage of supply of core investments has a potential to steer investors towards higher risk options, such as properties with higher vacancies, shorter WALE or those in secondary locations. These factors also contribute to the German real estate market remaining a focus of foreign investors.

Although the Fund's portfolio WALE as at 31 December 2014 was 6.7 years (weighted by net rental income) excluding the nursing homes, the WALE is mostly weighted towards nine of the portfolio's 61 assets which have a WALE of over 10 years.

As at 31 December 2014, the portfolio occupancy rate was 93% (by income) excluding the nursing homes. Four assets were major contributors to the vacancy. An office building in Dusseldorf with a vacancy rate of 80% contributes to approximately 50% of the vacant space in the portfolio. Three retail assets in Clenze, Bopfingen and Rabenau are 100% vacant and, combined, contribute to 23% of vacant space within the portfolio.

Asset management initiatives on the following properties have stabilised value and strengthened the Fund's future net operating income:

- Loerrach supermarket: Edeka has extended its current lease contract to 2032;
- Wittmund: The newly constructed supermarket units for Aldi and Combi were handed over in November 2014 with lease durations through until 2027 (Aldi) and 2029 (Combi) respectively; and
- New leases or extensions completed at Jena, Zimmern, Lörrach, Peine, and Schlossvippach.

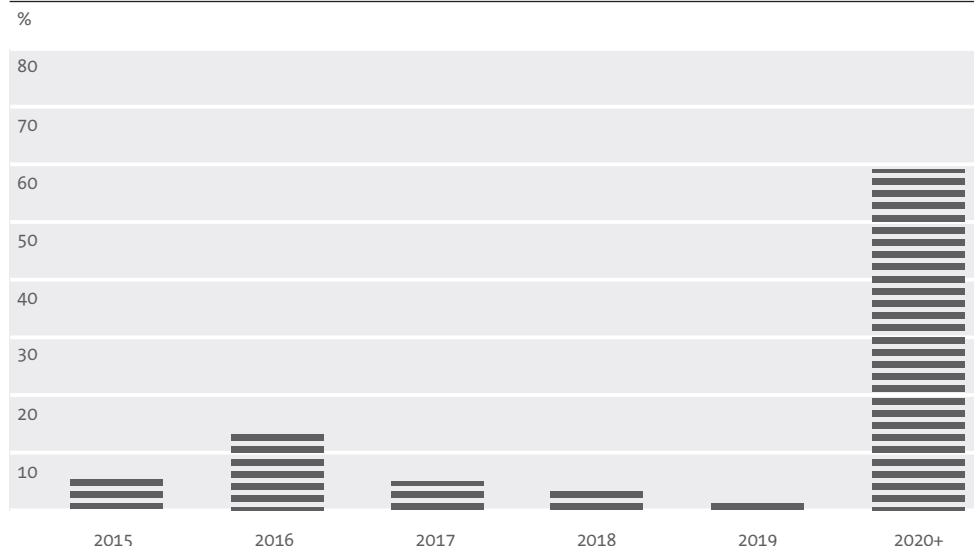
SECTOR ALLOCATION

- 75% Retail/Other
- 15% Office
- 10% Logistics



* Calculated on the value of properties as at 31 December 2014 excluding nursing homes.

LEASE EXPIRY PROFILE (by income)



Half Year Review

RETAIL SECTOR

The Fund's property portfolio comprises 55 retail properties including Supermarkets, Discount Retailers, Retail Parks, Do It Yourself (DIY) and Hypermarkets, with large national and multi-national tenants including Edeka, Hornbach, Rewe and Netto. Edeka contributes to more than 17% of the portfolio net income over six assets. Hornbach, the DIY operator, provides 8% of the portfolio net income.

The Fund's retail portfolio value, as assessed by JLL, has increased from €123.2 million as at 30 June 2014 to €125.8 million as at 31 December 2014, reflecting a number of new leases and redevelopments in the last six months. A contributor to the increase was a redevelopment of the home improvement centre / supermarket in Wittmund, lifting the value by €1.0 million.

LOGISTICS SECTOR

The portfolio comprises three logistics assets which contribute to 10% of the Fund's portfolio value and have a WALE of less than two years as at 31 December 2014. During the six months to 31 December 2014, the value of the logistics portfolio declined by €0.3 million reflecting shorter remaining lease terms.

OFFICE SECTOR

The office portfolio comprises three assets which contribute to 15% of the Fund's portfolio value. Due to new leases in Düsseldorf, the office portfolio increased in value by €0.3 million to €26.6 million over the six months to 31 December 2014.

DEBT AND HEDGING

Debt

The debt facility requires that cash and cashflow within the partnerships be retained within those entities, and not repatriated or disbursed without Financier consent. Approximately €18 million is retained to fund ongoing requirements of the property portfolio including required capital expenditure.

The debt facility provided to the German partnerships matured on 15 April 2014. The Financier has signed a standstill agreement whereby it has agreed to:

- waive any “event of default” which would otherwise have arisen following non-payment of the debt on maturity; and
- not take any enforcement action, until 30 September 2015 (Standstill Period).

OCCUPANCY AND WEIGHTED AVERAGE LEASE EXPIRY (WALE)

DESCRIPTION	OCCUPANCY %	MAJOR TENANTS	YEARS (BY INCOME)
55 retail properties comprising:	96	EDEKA, Hornbach, Netto, Rewe	6.74
– discount supermarkets			
– full supply supermarkets			
– DIY markets			
3 logistic/warehouses	100	Spicers, TNT	1.73
2 offices and 1 IT-Hotel	69	ABB AG Division Energietechnik, TelecityGroup Germany GmbH	11.97
Total portfolio (excluding the nursing homes)	93		6.67
5 nursing homes	100	Kursana, Phönix	11.47
Total portfolio (including the nursing homes)	96		7.55

This standstill agreement is subject to ongoing satisfaction of a number of conditions, including:

- Implementing a business plan that will see all of the Fund's properties sold to repay outstanding bank debt.
- Appointment of an agent acceptable to the Financier to manage the sale of the properties and such appointment not being terminated without the Financier's consent.
- Continued appointment of Corpus Sireo as the property manager in Germany and such appointment not being terminated without the Financier's consent.
- No insolvency event or other event of default occurring under the debt facility agreement (other than non-payment of the debt on the original maturity date) or the standstill agreement.
- No other circumstance occurring, that, in the opinion of the Financier, detrimentally affects its position with the German partnerships when compared with its position to them as at the date of the standstill agreement (including, without limitation, a negative decision by the relevant tax authority in respect of the pending tax audit of the trade tax position for the business years 2007 to 2010).

If any of these conditions, or other standstill conditions are breached, the Standstill Period will terminate and the Financier may proceed with enforcement action. Further standstills or debt facility extensions after 30 September 2015 are at the Financier's sole discretion.

The interest rate payable under the debt facility is the Euribor base rate plus 2.75%. As at 31 December 2014, this was an "all in" rate of 2.78% per annum.

Hedging

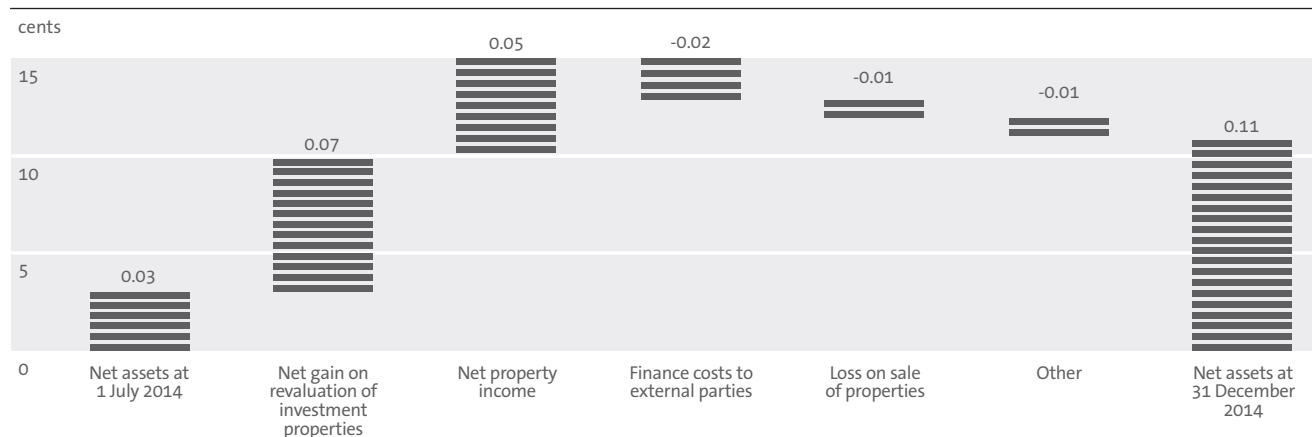
The net equity position of the Fund's investment in the property portfolio is not hedged. Therefore, the Fund may be impacted by movements between the Australian dollar and the Euro. No interest rate hedge is in place for the debt facility at 31 December 2014.

CASHFLOW CONSIDERATIONS

The Fund's Australian entities are not party to the debt facility and the Financier has no recourse to the Fund's assets held in Australia. The Fund retained net cash of approximately \$6.1 million (2.5 cents per unit) in Australia as at 31 December 2014. Expenses incurred by the Fund outside of Germany will continue to be met from cash reserves.

In the event that the Fund's properties are sold the level of excess cash reserves capable of being distributed to investors will ultimately be determined by the outcome of any sales, the German tax audit and time and costs incurred by winding up the Fund.

NET ASSET MOVEMENT (per unit)



Half Year Review

TAX AUDIT

German Tax Audit 2004 to 2006

During the half year ended 31 December 2014, correspondence was received from the German Tax Office in relation to the objection lodged for Trade Tax assessed for the 2004 to 2006 tax audit. The correspondence indicates that the current opinion of the Tax Office is to confirm the previous findings of the tax audit and reject the objection lodged by the Fund's wholly owned German partnerships. The correspondence is not in the form of a final decision and further discussions have taken place with representatives of the Tax Office. The objection remains under review by the Tax Office and it is expected that further discussions will take place prior to any final decision being issued.

In the event that the objection is formally rejected, no further Trade Tax should be payable for those years as the assessment of approximately €2 million has been paid prior to the objection being lodged. Consideration will be given as to whether an appeal will be made to the German Tax Courts.

German Tax Audit 2007 to 2010

Correspondence, in the form of preliminary findings, was received from the German Tax Office in May 2014 regarding the German partnerships' 2007 to 2010 tax audit. These preliminary findings result in tax payable in the amount of €0.15 million (A\$0.22 million) with none of the liability being relevant to Trade Tax. The preliminary findings have been reviewed with advisors and further information has been provided to the Tax Office. To date, final audit reports have been received for a number of German partnerships

but not the German partnership subjected to the Trade Tax assessment for 2004 to 2006 and no final assessments have been received. It is open to the Tax Office to alter the findings prior to assessments being issued and therefore, there is no guarantee that this position will not change. Once a final assessment and a confirmation that no Trade Tax is payable as a result of a tax audit has been issued and the relevant liability paid, the Tax Office will generally be unable to re-assess or make any further amendments for those years.

The Financier has confirmed the following regarding the preliminary findings for the German partnerships' 2007 to 2010 tax audit:

- it will agree to the estimated tax payable of approximately €0.2 million being funded from German partnerships' cash reserves retained in Germany; and
- the preliminary findings received from the Tax Office and any assessment arising on substantially the same basis is not an event of default or termination event under the debt facility.

It should be noted that as the tax audit findings are not final and no assessments have been issued, if the Tax Office were to apply the same approach for the 2007 to 2010 period as was applied to 2004 to 2006, the current estimate of potential Trade Tax payable would be up to €29.25 million (including approximately €7.4 million in interest and penalties) calculated to 31 December 2014. Further, if an assessment was to become due and payable, discussions with the Financier and the Tax Office would be required regarding payment of part or

FUND SNAPSHOT (as at 31 December 2014)

Listing date	3 July 2007
Market capitalisation ¹	\$10.4 million
Total assets	\$449.6 million
Net assets per unit	\$0.11
Portfolio occupancy	93% ⁵
Portfolio weighted average lease expiry (by income)	6.7 years ⁵
Loan to value ratio (interest bearing loans/property assets) ²	99.5%
Management fee ³ (excluding GST)	0.41% of gross asset value
Performance fee (excluding GST)	5% to 15% of benchmark ⁴ outperformance

Notes:

¹ Market capitalisation as at close of trading on 31 December 2014.

² Calculated using 31 December 2014 valuations.

³ Subject to the arrangements outlined in the Chairman's letter dated 14 June 2007.

⁴ S&P/ASX 300 A-REIT Accumulation Index.

⁵ Excluding Nursing Homes.

all of any such liability. If no deferral of any liability is achieved or if the Financier does not consent to the use of cash reserves then this may give rise to solvency considerations in those entities and/or an event of default under the debt facility.

Consistent with prior reporting periods, having obtained independent advice, BCML's view remains that, in the event that the tax matter was pursued through to court appeal, the relevant entities are more likely than not to successfully defend their position and no trade tax would ultimately be payable. No liability has been recognised in the Financial Statements for the potentially outstanding amounts.

OVERVIEW OF THE FUND'S CURRENT POSITION

Given the level of gearing and uncertainty of the German partnerships' tax audit, alternatives to restructure the Fund are limited. Options for the Fund are to proceed with a sale process managed by BCML or to allow the Financier to proceed with enforcement action. BCML believes that a managed sales process is more likely to optimise values and is preferable for investors rather than a process managed by the Financier or a receiver. If investor approval is required by the ASX Listing Rules, a meeting of investors will be convened when details of a sale proposal have been finalised.

At this stage, subject to the outcome of the tax audits, it is estimated that a managed sale process will result in a cash surplus in the German entities, after repayment of all liabilities, including the debt facility. However, the amount cannot currently be accurately assessed and there is no guarantee that any proceeds will be available for repatriation to investors.

BCML will continue to assess the position. Importantly, investors should recognise the German tax audit outcome may ultimately determine the future of the German partnerships and potential returns to investors, even if surplus cash reserves remain after the sales process is complete. An adverse finding from the tax audit may lead to an event of default under the debt facility and/or a breach of standstill conditions. Should the tax audit result in an assessment becoming payable, this may result in the German partnerships or partner entities being placed into insolvency. Although this is a possibility, BCML consider that as the tax audit is ongoing and the outcome remains uncertain, the optimal course is to undertake a managed sale process in accordance with the standstill.

RISKS

In addition to the risks associated with any sales process and/or the German tax audit, investors should note ongoing risks associated with the Fund and potential returns to investors. In particular:

1. Solvency of Fund Subsidiaries

Insolvency of the German partnerships or the Fund's European subsidiaries may result in an event of default under the debt facility. Ongoing solvency of these entities is being closely monitored.

2. Wind Up of the Fund and its Subsidiaries

The method and timing of a Fund wind up is determined by many factors including outcome of the sale process and German tax audit. A delay in this process will delay repatriation of any excess proceeds and may reduce the amount, if any, ultimately distributed to investors.

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2014

	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2014 \$'000	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2013 \$'000
Revenue and other income		
Property rental income	16,238	16,582
Interest income	116	155
Net gain on revaluation of investment properties	17,175	-
Net realised gain on financial derivatives	-	830
Net unrealised gain on revaluation of financial derivatives	-	6,104
Total revenue and other income	33,529	23,671
Expenses		
Property expenses	3,452	4,108
Finance costs to external parties	4,969	7,921
Management fees	740	763
Net loss on revaluation of investment properties	-	2,583
Loss on sale of properties held for sale	3,202	-
Other expenses	1,101	1,332
Total expenses	13,464	16,707
Profit before income tax	20,065	6,964
Income tax benefit/(expense)	112	(1,113)
Net profit after tax	20,177	5,851
Other comprehensive income, net of income tax		
Items that may be reclassified subsequently to profit or loss		
Changes in foreign currency translation reserve	214	(20)
Other comprehensive income/(loss) for the period, net of income tax	214	(20)
Total comprehensive income for the period	20,391	5,831
Net profit attributable to ordinary unitholders	20,177	5,851
Total comprehensive income attributable to ordinary unitholders	20,391	5,831
Earnings/(loss) per unit		
Basic and diluted earnings per ordinary unit (cents)	8.17	2.37

The Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at www.au.brookfield.com.

Condensed Consolidated Interim Statement of Financial Position

As at 31 December 2014

	CONSOLIDATED 31 DECEMBER 2014 \$'000	CONSOLIDATED 30 JUNE 2014 \$'000
Assets		
Current assets		
Cash and cash equivalents	115,978	31,972
Trade and other receivables	1,606	850
Properties held for sale	332,049	316,722
Total current assets	449,633	349,544
Total assets	449,633	349,544
Liabilities		
Current liabilities		
Trade and other payables	9,237	6,730
Proceeds received for deferred settlement of nursing homes	83,012	-
Interest bearing liabilities	330,418	336,239
Total current liabilities	422,667	342,969
Total liabilities	422,667	342,969
Net assets	26,966	6,575
Equity		
Units on issue	202,533	202,533
Reserves	(1,207)	(1,421)
Undistributed losses	(174,360)	(194,537)
Total equity	26,966	6,575

The Condensed Consolidated Interim Statement of Financial Position should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at www.au.brookfield.com.

Corporate Directory

Responsible Entity

Brookfield Capital Management Limited
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Directors

F. Allan McDonald
Barbara Ward
Russell Proutt
Shane Ross (alternate to Russell Proutt)

Company Secretary

Neil Olofsson

Registered Office

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Custodian

Brookfield Funds Management Limited
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Stock Exchange

The Fund is listed on the Australian
Securities Exchange (ASX Code: MUE).
The Home Exchange is Sydney.

Auditor

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www.au.brookfield.com